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GREAT BRITAIN AND THE COMMON MARKET - is there any  
choice ?

The economic effects upon Britain of entering the  
Common Market.

By

Einar Olav Venold

Presented in partial fulfillment of the requirements  
for the degree of  
Master of Business Administration

UNIVERSITY OF MONTANA

1969

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## FOREWORD

The purpose of this study is to identify, describe, and analyze the practical economic effects of Great Britain's joining the Common Market, and to set out the issues involved in its decision about going into the Common Market.

The study is based on secondary research. The reason for the research is to examine developments within Great Britain and to relate these to the goals of the Common Market and to show how and why they can either be characterized as advantageous or disadvantageous to Great Britain if it joins the Common Market.

E. O. V.

## CHAPTER 1

### INTRODUCTION - GREAT BRITAIN AND THE COMMON MARKET

Most people, when they think of Great Britain joining Europe, consider whether it should or should not join the Common Market. People also think that there would be enormous advantages for the country if it were a member, and that the country would become more prosperous. One has to remember, however, that there are also issues other than prosperity involved. It is important to try to predict the kind of society in which the people of the nation shall be living in future years.

It is said that history repeats itself, and when Great Britain considers the future, it can probably get some guidance by thinking back over the vast changes which have taken place in the immediate past.

Thirty-one years ago, when the fate of the world was discussed at the Munich Conference, it was the Great Powers of the time who assembled to decide that fate. At that time they were Britain, France, Germany and Italy. Few at that time, bothered very much about what the Russians thought and the Americans did not participate at all. This is quite a contrast to the present world situation, in which there are two superpowers, United States and the Soviet Union, which dominate the world scene. The great powers of thirty-one years ago have become relatively minor countries

today, and their influence on world events has decreased accordingly.

This emergence of super-powers on the scale of the United States and Soviet Union is a major change which has greatly affected the status of Britain since the last world war. A similar effect is the changing character of the Commonwealth. Today most of the Commonwealth territories are independent, self-governing countries.

There is, however, also a third great change taking place whose effects will become increasingly apparent during future years. This is in the field of industry and advanced technology. The great surge forward in technology can only be sustained by economies capable of providing the enormous funds required for research and development. Such economies, in turn, can only be sustained by very large markets. Not having a potential market large enough to justify the very high costs of research and development is a handicap for any industrial country.

It is against this background - the emergence of super-powers, the changing character of the Commonwealth, and the fast pace of industrial advance - that the idea of a "European United States" has made progress in the years since the last world war.

Twice in this century the European continent has been severely damaged by wars, and the general feeling among European people about how to end such conflicts can be described by the following words of Sir Winston Churchill:

"If I am asked what advice I can give to Europe, I can give it in a single word: Unite!" (1)

Within a few years after the last world war, rapid progress was being made: The Council of Europe had been established. The Marshall Plan, United States economic aid to help Europe to recover, had led to the setting up of the Organization for European Economic Cooperation (O.E.E.C.). The North Atlantic Treaty (NATO) was signed, providing for the collective defence of Western Europe, under an integrated command.

The organizations mentioned above made great contributions to the unity of the European peoples. They were organizations in which national governments cooperated with each other. But all these organizations paused when it came to the question of supranationality or true integration, which many considered to be the real need of Europe.

The European Coal and Steel Community - a Community in which the coal and steel industries of Europe would be pooled - is the first example of an European organization in which decisions would be made by a supranational High Authority. Seen in relationship to its present interest in the Common Market, it is here Great Britain made a mistake: At that time it was the largest producer of coal and steel, in Europe, and if it had accepted the supranational principle it could have been the main influence in the growing Community. However, it did not approve of



the development. Six countries - Belgium, France, Germany, Italy, Luxembourg and Netherlands - went ahead without Great Britain.

During the 1950's, people all over Europe began to despair of a British commitment to European integration. This despair deepened when the Treaties which set up the Common Market (and EURATOM) were being negotiated. At that time the British government view was that the problems among the six countries would prevent an economic integration of these countries ever becoming a reality, and it therefore never joined the negotiations (except for sending a junior official who was soon withdrawn). But the six went ahead, and the operation of the Common Market (European Economic Community) started on January 1, 1958.

The E.E.C. Treaty was an economic treaty with political implications behind it. For the first time, European nations had started on a road which would lead in the end to all major economic and political decisions being made on behalf of all the joining nations as a whole.

The economic aim of the E.E.C. was to set up one integrated European market by the elimination of all tariffs and other restrictions to trade over a period of twelve years (in fact, the Community has been so successful that this period was cut to ten years). Even with the six countries alone this meant a market of 181 million people, comparable to the population of the Soviet Union or the United States. If Great Britain and the other EFTA

countries joined, the population would be about 270 million, substantially larger than EFTA and E.E.C. of today. (2)

The treaty went much further. It also provided for the free movement of people and money, as well as goods, a common agricultural policy, harmonization of social services, and other subjects leading to a further economic union of the member countries.

When the Common Market started, the transition period of twelve years (during which time all trade barriers were to be eliminated) was divided into three stages of four years each. During the first and second stages all important decisions were to be taken by unanimous vote. This meant that every country had the power to veto any proposal it did not like. But from the beginning of the third stage, on January 1, 1966, the treaty laid down that the Community would make most of its important decisions by majority vote. It was this aspect of the treaty which General de Gaulle particularly disliked, since it emphasized the supranational principle on which the Community is based.

De Gaulle has already vetoed British membership application twice, and his reasons for this were many and complex. It was widely believed, for instance, that de Gaulle thought that an enlarged E.E.C., with Britain as a member, would diminish his own influence. He has spelled out clearly his views as to the future of the Community:

- "1. To prevent the strengthening of the Common Market and take away its supranational powers.
2. To reduce a possible European political union to that of a loose alliance of sovereign states.
3. To limit cooperation with America to the minimum." (3)

During the Community negotiations it was widely believed that Britain was just as dissatisfied with the supranational principle as de Gaulle himself. This may have been true at one time, but not today. There exist many statements from responsible British political leaders of all parties on this subject. In November 1965, Mr. Michael Stewart, British Foreign Minister, talked about "bringing together EFTA and E.E.C. towards wider European Unity, which is the result we all desire", and he also said that he meant by wider European unity "something resembling more the E.E.C. principle than EFTA." (4)

The question is, then, if supranationality is a goal in itself. Some of the Common Market's spokesmen want as much supranationality as possible in the Community, while the British think of it differently. They want as little supranationality in the Community as is necessary to make it work successfully. Sir Edward Beddington-Behrens explains it in the following way: "The British do not fully appreciate the different approach on parliamentary decisions as between themselves and other European countries. The French and other Continentals always try to agree on a "general principle" in legislation and not as in the

House of Commons, on the precise form of its application. They are prepared to leave the details of application to officials." (5)

The Community idea is not a static concept; as new situations arise it will change. In the event Great Britain joins the Community, there will be advantages and disadvantages to both sides. What is important to Britain does not necessarily have to be considered important by others. As an example, from British point of view, attractions of a political union are even more important than those of economic union - because an effective political union would put Europe on equal terms with the United States and the Soviet Union.

Politicians both in Great Britain and in the Community agree that it is a waste of time to lay down in advance the precise form which a political union will take. Once the Common Market has been strengthened by the inclusion of Great Britain and other countries, then it will or would in time work out the kind of political union suitable at each stage of the future development of the Community.

The "new Unity of Europe" would be built by going forward from what has already been achieved in the Common Market. It is probable that the development within the Community has gone too far now to be reversed by any nation. Therefore, there is no question now of Britain having to choose whether it wants a United Europe or not. The

choice for Great Britain is whether it wants to join this United Europe, or whether it wants to let Europe go ahead and unite without it.

Great Britain is at present a member of The European Free Trade Association (EFTA), but its membership in this free trade organization does not provide a solution to its economic problems. EFTA is, moreover, considered a temporary structure, a kind of holding operation until a larger United Europe can be created.

By examining the most important economic problems of Great Britain in the light of the goals and developments of the Common Market there is no choice - Great Britain must join Europe, or according to Edward Beddington-Behrens:

"A European Unity must be created. Only by uniting can Europe play its proper role in the world affairs. This United Europe, however, must be an enlargement of the European Community, so that Great Britain and other countries can add their contribution to the Europe which is being built." (6)

## CHAPTER 2

### GREAT BRITAIN AND ITS ROLE IN EUROPEAN COOPERATION IN ADVANCED TECHNOLOGY

"Unless European industries concerned in advanced technology cooperate together as if there were no natural frontiers between them, Europe, within a decade, will be an undeveloped area, as compared with the Soviet Russia and U.S.A." (7)

This statement made by leading scientists and industrialists of fourteen European countries, in a meeting concerned with the problems of aviation and aero-space, computers and automation, telecommunications and nuclear energy for civil use, is convincing evidence of the urgency of removing trade barriers between Great Britain and other European countries.

Since the last world war, a complete scientific and technological revolution has occurred. Unless Great Britain is able to keep up with the developments, it will be completely left behind in the modernization of industry and the automation procedures essential to large and smaller-scale industrial production.

American or Russian rocket success is based on very expensive scientific experiments, but one must also realize that such success is based on sophisticated methods of training human beings, training based on findings from the newest advanced technology. By enormous expenditures the governments involved have created a group of highly

trained technicians and have given a further stimulus to automation and computer techniques.

The present European situation is one in which no nation alone has either the financial resources or the market to enable it to compete with the U.S.A. in these fields. Therefore, only by combining efforts is it possible for European countries to maintain themselves in advanced development. Britain, which developed the jet engine, television, the first nuclear device, radar and - a few years ago - the Hovercraft, may be completely forced out of the more sophisticated technological industries if such European cooperation is not achieved.

If the British aviation industry is to be maintained and developed, it must collaborate closely with Continental countries. Concerning the future of the British and European aircraft industry, the following point of view has received the British government's full recommendation:

"Wholehearted collaboration on a comprehensive range of civil and military aircraft projects with European countries with the aim of evolving a European industry to produce aircraft fully competitive with those of the United States". (8)

The advantages of this collaboration are considerable. Very heavy costs of research and development are shared. Markets for products are enlarged. Thus, the ratio of research and development costs to production costs are maintained within reasonable limits and technological expertise is pooled.

British experience in aircraft development shows that

they need not fear technical competition. In fact, the technical performance of the British aircraft industry has been characterized as being up to the American standards. But owing to the enormous cost of any national program, British and other European governments must be prepared to support the development of a European aircraft-industry, for such an industry in Europe to survive at all.

At present, the Americans are supplying most the commercial aircraft used by European nations. To be able to compete with the United States, Great Britain and other European countries should realize that cooperation on a European basis must be created, so as to obtain the advantages mentioned previously. Long-range planning is important to meet future requirements, and these requirements should be met through a joint European project development.

During the past few years, computers have had an enormous part in automation. There are, at present, two large British independent companies making computers, International Computers and Tabulators (I.C.T.) and English Electric. These two companies are subject to intense competition from American Companies, especially I.B.M, which have approximately forty per cent of the British market and between seventy and eighty per cent of the remaining European market. (a)

In the countries of Europe where Americans have built firms, employment and other trade benefits have been



created. But the great size of American companies has often enabled them to obtain a monopoly position. This has weakened the European computer industry and caused much indignation in the countries concerned. The British computer industry may perhaps be forced to go out of business because its present market is not able to meet the enormous cost of development. With no European cooperation there is thus a danger of the entire computer business in Europe falling under American control. This American monopoly can further lead to a situation where European firms might benefit less from the latest technological discoveries:

"If Europe reacts to the possibilities of American monopoly by resolutely building up her own competitive industries this may eventually result in cooperation between European and American interests. Because cooperation is only possible between equals, not between a giant and a lilliputian." (10)

With its independent computer industry Great Britain would make a major contribution to European cooperation. This is urgent, for it is doubtful if British industry can withstand American competition, unless the large European market and the enormous costs of research are shared.

An important goal of the British government should then be to see that the per cent of the American-controlled computer market is not increased further, so that an independent British computer industry is maintained.

Cooperation is also an effective means by which European countries can take up the space challenge of the superpowers, and this is the idea underlying the formation

of two European organizations, the European Research Organization (ESRO), and the European Launcher Development Organization (ELDO).

These two organizations' most ambitious project was the launching of the Europa 1 rocket. In this case the experiment of cooperation turned out to be a complete failure because of unexpected high costs and political disagreements, and it is a good example of how not to organize a joint multinational enterprise. However, this failure should not discourage new efforts on a more constructive basis. It would be a loss if Britain and the other European countries were to surrender the development of a comprehensive communications system to the monopoly of the super-powers.

A first-class European telecommunications system is essential to the prosperity of European countries, and other countries outside Europe would benefit by the stimulus of competition. To be competitive, Europe must have telephone, telegraph, data transmission and broadcasting services of the highest efficiency. This requires highly improved telecommunications.

But unfortunately, there are few industries in which Europe's narrow nationalistic outlook in the past has had more restrictive and limiting effects than the telecommunications industry. An example of this is the fact that each country in the Common Market and in EFTA has had its

own separate telephone industry, manufacturing a complete range of all its national telephone equipment. (11)

Telecommunication should then be a field which Europe has less to fear in the technology race, because there are vast resources of telecommunication expertise untapped in Europe's overall overadministered nationalistic telecommunication industry. The release of expertise could lead Europe to take the position as a world communication centre.

Even if tariff barriers were removed among a larger European Community there would still remain serious legal and fiscal problems in connection with cooperation in advanced technology. At present, any foreign national can start a company in Great Britain and receive the same legal protection as an Englishman starting a new company. In most other European countries, including the Common Market countries, there exist all kinds of laws protecting the national companies. To solve this problem of differing national laws and to create an acceptable form for European cooperation in advanced technology, the following is proposed:

"Where different European governments or companies have a share in developments in advanced technology, one must devise a suitable legal entity that reflects the contributions of the different European partners. This should be a European international company whose shareholding is suitably divided between the many participants. This would greatly assist inter-European industrial cooperation." (12)

The conference does not state how liabilities and profits can be shared, this is left as a problem to be solved.

The British hope that within a few years they will have joined the Common Market and that within a short period EFTA and the Common Market will join together. But even an expanded Common Market will still be far behind in those technical developments essential to modern industry. However, from here on the increased cooperation should lead to decreased European reliance on other world powers to develop and supply necessary advanced technological equipment.

Just as the British government and the governments of the Common Market countries know, the initiative should be taken to lay plans to organize the fullest European cooperation and integration of advanced technological industries.

British industry and science are at present ahead of most of the other European nations in advanced technological development and through integration and cooperation it can make a valuable contribution to the technical advance of Europe as a whole.

### CHAPTER 3

#### INDUSTRIAL EFFECTS OF JOINING THE COMMON MARKET

The great advantage to British industry if Britain joins the Common Market can be simply stated: Instead of British industry manufacturing for a home market of 54 million people plus the 38 millions in the other EFTA countries, it would be manufacturing for a home market of approximately 270 million people. The increased home market for the British Industry, in general, would produce a double challenge: (1) increased competition at home because of the loss of tariff protection against imports from the E.E.C.; (2) increased sales in the E.E.C. countries because their tariffs against British imports will be ended.

In the last chapter, the necessity of organized co-operation in advanced technology among the European countries was discussed. It was shown that only through co-operation with other European nations can Britain have any worthwhile future in these fields. But the same considerations also apply to most of the industry making consumer goods of all kinds, because a very large home market is necessary to organize production as efficiently and as cheaply as possible. Through improved efficiency, British industries would be able to increase productivity. Ex-

perience shows that this will have a general tendency to reduce prices on industrial goods.

It is not only the British market that is too small in this sense. The Common Market countries admit that their market itself is too small. They accept that they need the addition of Britain and the other industrial countries of Europe, in order that production can be organized on an efficient scale.<sup>(13)</sup> Competitive manufacturing for a large market means being as efficient as possible, and this applies to both small and large corporations. However, there is a fear among many people in Great Britain that the eventual entry into a larger European market would mean that only the very large firms would survive. This is not always right, because bigness does not necessarily have to mean efficiency.

The increased competition, as result of the enlarged market, will force modernization of British industry where necessary. Some firms in certain industries will not be able to compete in a larger market because of the increased competition and they may have to be closed down. The result of this development could be increased unemployment for a time. The primary goal of government and industry should then be to rebuild or create new industry on an efficient scale which will absorb the eventual unemployment.

According to industrial leaders, "the important point is that if Britain joins the Common Market, the British manufacturer will have a large and assured 'home' market

which has adequate financial resources. This is of great importance in planning future production. The reason for their point of view is because of the very large sums of money involved in research and planning for future developments. Their risk factor is reduced since they know they can rely on access to an adequate market."<sup>(14)</sup> At present, the only market the British manufacturer can rely on is the British market of 54 million people. The manufacturer does not know what new tariffs or other barriers may be raised against him at any time.

British manufacturers want access to an increased home market on which plans for future development can be confidently based. Entry into the Common Market would provide the British industry with such a market, and on an adequate scale.

To find out where Great Britain stands in world trade it is necessary to look at the figures of world-export.

TABLE 1  
SHARE OF TOTAL WORLD EXPORTS (26)

	The world	Great Britain	Common Market
1958	95.800	9.267	22.775
%	100	9.7	23.8
1965	151.800	12.341	43.548
%	100	8.1	28.0

Table 1 shows the enormous stimulus which membership in the Common Market has provided for the six member countries, and how their ability to sell in the world markets has been increased. Figures indicate the Common Market has increased its share of world trade. By comparison, the British share has dropped somewhat. Probably, it is the advantages of being in the Community that have made it possible to put forth such a successful performance. Member of the Commission (The E.E.C. executive organ), Dr. H.C. Hans von der Groeben explains the successful performance in the following way:

"The advantages of the Community go far beyond the mere lowering of tariff barriers. One important factor is that those of the people of the Community who are engaged in business and industry can plan ahead with confidence. They become expansion minded, and this psychological stimulus is of great value." (15)

It can here be added that on July 13, 1968, the Common Market countries agreed on a transport policy. (16) This will give them even more favorable conditions for expansion in the years to come.

All such developments have important effects on the rate of economic growth. Great Britain has been struggling for years to achieve a higher rate of economic growth, because that has been considered the key to getting the country out of its present economic problems. The Common Market countries had enjoyed a period of rapid economic growth just before the Community came into operation, and as is shown in Table 1, the Market has helped to maintain



this expansion. This can also be confirmed by an average yearly growth rate based on figures from key industries. During the period 1958-1965 the expansion rate of Great Britain was 3.4 per cent per year, while it was 5.2 per cent per year for the Common Market countries. (17)

The forecasts are that economic expansion in the Common Market will continue at a higher rate than in Britain in the years ahead. The current expansion in the Community has been, and is, backed by a far higher level of investment than in Britain. If Great Britain wants to keep foreign investment out, because it does not want to pass control of important sectors of industry over to foreign companies, its own rate of investment has to be increased.

The conclusion on this must be that if things remain as they are in Great Britain, it will continue to fall behind the very rapid expansion taking place on the continent, and it will continue to invest less in industrial development in the future. If Great Britain joins the Common Market it will also join in their present and future expansion. This is why there is today strong support throughout British industry for Britain to become a member of the Common Market as soon as practicable.

During the last years Great Britain's trade with Europe has rapidly increased. Europe is the most rapidly expanding market for the sophisticated manufacturers which form an increasing share of the total British exports.

This export goes to the Continent over tariff barriers. But the process of tariff cutting in the Common Market is now already completed<sup>(18)</sup> , so the advantages which a member country enjoys is maximum.

TABLE 2  
BRITISH EXPORTS TO THE COMMON MARKET AND EFTA (27)

British Exports	1958		1965	
	%	\$ 1000 Mill	%	\$ 1000 Mill
Total	100	3.31	100	4.41
To Common Market	13.8	.46	20.6	.91
To EFTA	10.0	.33	12.9	.57

Table 2 above shows that Britain's trade with the Common Market is much more important than its trade with the other EFTA countries, even through tariff discrimination.

To avoid the discrimination, many British firms have been setting up subsidiaries inside the Common Market or making arrangements with Common Market firms through licensing or sales agreements. But effective operation of British firms inside the Common Market does not guarantee them a part in industrial developments inside the Common Market, developments that will be increasingly influenced by the common policies of the Community. These policies will eventually cover energy, labor, transport, patents, and a number of other fields which have a vital effect on industrial operations. The process of framing these

policies is still going on. Industries in the Community are able to influence the decisions which will be made. They are involved in deciding the policies and are, therefore, in a much better position to adapt their operations to the eventual conditions in the Market than their British competitors. If Britain were a member of the Common Market, British industry would also have a voice in the decision making process. The longer Britain remains outside, the more decisions will have been made, and the harder the process of adaptation will be.

The future of British industrial prosperity depends on their joining the Community; the sooner the better.

## CHAPTER 4

### THE IMPORTANCE OF GREAT BRITAIN AS A FINANCIAL CENTER

The City of London is one of two outstanding financial centers of the world, second only to New York. It includes banks, a number of commodity markets, insurance companies, and the Stock Exchange. Because of the unique expertise of these institutions the City has so far maintained its position despite Britain's diminished power in the world. The financial channels of the City, with their credit facilities and world-wide connections, give an enormous support to British exports and thus help their balance-of-payments position.

On the London market almost every currency in the world may be bought or sold, and London is said to have a clear lead over New York both in the volume and the variety of foreign currencies handled. City of London has much to contribute to its continental partners. For example, the commercial banks in London are operating with a highly developed checksystem, they have a more extensive established connection around the world and a bigger volume of overseas business. City's advantages can bring benefits to all the members of an increased Community. Financial experts in London consider the role of the City to be the following:

"The City it is who must forge the financial links with Europe. City must play its part in making one great financial market out of several different national and local financial centers." (19)

Presently there exists no such thing as a real capital market in the Common Market countries, i.e. a free market in stock-exchange securities, issued to finance the large requirements of every type of national industry. The continuing leading role of the City, in relation to all the financial centers of the Continent, is due to the failure of the Common Market countries to establish an effective capital market, appropriate to their size and economic strength.

There are several reasons for this failure. On the Continent, capital in industry tends to be held by a small group of shareholders. Industry is more dependent on the banks for working capital than is the case in Great Britain, and the banks often own a large proportion of the equity of industrial companies. Also private investors on the Continent are less attracted by equities than the British, and seem to prefer putting their resources into savings institutions, a preference which is largely due to the absence of an easy channel by which the developments of different industries can be made known to the public. In a closer union with Europe the British financial expertise would be available to the enlarged community.

The customs union is already completed, but the six

have scarcely done anything so far about common commercial or financial policies, without which the single capital market they need is not possible. As integration proceeds the need for larger-scale firms will increase. This, in turn, will make a financial center, capable of handling very large issues of capital, more and more necessary. If Great Britain joins the Community the above-mentioned situation offers an opportunity and a challenge to the City. It would also help reduce the European dependence on American capital. The City would also have an important role in financing European resources for investment in the developing countries.

At the moment the City is the leading financial center in Europe, and it is also clear that it will take years before a financial center will emerge in the Common Market. But if Britain is cut off economically from Europe, the City's chances of holding its position against a continental rival will be seriously reduced.

## CHAPTER 5

### THE MOST DIFFICULT AND COMPLICATED QUESTION IN THE NEGOTIATIONS BETWEEN THE COMMON MARKET AND GREAT BRITAIN - AGRICULTURE

Agricultural questions have in the past been among the most difficult and complicated in any international negotiations. In EFTA the agricultural problems were solved through bilateral agreements between the member countries, separately from the EFTA Convention. When discussions about British membership in the E.E.C. take place, arrangements for agriculture are considered to be among the most important problems.

The British government has always attempted, for social and economic reasons, to ensure equitable treatment of farmers. Public opinion in any country is rightly sensitive on this question. There often arise misunderstanding because people who live in towns and work in industry cannot understand the complex problems of agriculture, but these people still in most cases are of the opinion that farmers must be treated fairly. The opinion is based on a concern for the stability and well-being of the country as a whole, and the belief that this only can be accomplished with an agricultural community.

Most continental countries are anxious to ensure fair treatment for their farmers, especially so since a high

proportion of the people there are engaged in agriculture. (20)

The Treaty of Rome aims at "increasing agricultural productivity, a fair standard of living for the agricultural population, stable markets, regular supplies and reasonable prices and supplies to consumers." (21) These objectives have received British support, and Britain is prepared to participate in a common agricultural policy and in developing a common organization of agricultural markets.

The objectives stated are very general, and the really important negotiations began when countries started to draw up details of their common agricultural policy. The policy is not yet completed, but some important arrangements were agreed upon after January 1966, when agricultural negotiations started again. An example of how the system is working is the agreement on uniform grain prices which came into effect on July 1, 1967. This decision was considered to be the key to the economic union of the six, and similar arrangements will probably be made for most of the major agricultural products. The basic principle of the grain agreement is that there should be a "managed market". At the same time the farmer is given a fair standard of living, prices must also be reasonable to the consumer. Thus the managed market works as a "regulating body" for the interests of both farmers and consumers. This system is very different from the free market, combined with deficiency payments, which is used in Great



Britain. The first difference here is that the Common Market farmers get their living in the market place, by actual prices they receive for their products, and not, as in Great Britain, partly from the market and partly from the taxpayer in the form of agricultural subsidies. British agriculture is more up-to-date, more mechanized and more efficient than agriculture in the Common Market countries, and for this reason, British farmers would be likely to do very well in a managed market.

The Common Market's plan for grain establishes three prices which are important. These are the basic target price, support price, and variable import levy. The basic target price is the price fixed within the Community for each form of grain. It is fixed at a level which provides a fair return to more efficient producers. This is fair to the efficient farmer and to the consumer, but is hard on the marginal producer. So provision is made to help them. The support price is fixed at eight per cent below target price. This is the level below which prices on the market will not be allowed to fall. If they fall to this level they will be held there by support buying by the Commission itself.

The variable import levy is fixed to ensure that food imports from the outside world are not offered on the internal managed market at less than target price. On every ton of grain which crosses the outside borders of the Community, a levy must be paid which will bring its price

up to the target price. These levies on imported foods are intended to provide the funds to be used for support buying, and in helping farmers, so as to improve agriculture in the Community.

This is a complicated system, and also a very sophisticated method for managing an agricultural market. In order for this system to work successfully, great knowledge has to be shown by the Commission in their price-fixing. If prices are either too low or too high, there will be serious troubles. An extreme case would be when the target price was set too high, so that there were no imports at all, since then there would be no funds available for internal support buying or for giving any other help to agriculture.

In Great Britain, a similar managed market system is slowly developing, with the introduction of minimum import prices on certain grains. This development had the effect of ensuring to the British farmer a greater return from the market, and it also lessened the taxation burden of deficiency payments. The idea is gradually to phase out the deficiency payments on a number of products and replace them by levies, so as to achieve a managed market on Community lines. The levies would be introduced by stages, and, as a levy began to take effect and market prices rose, the size of the deficiency payment would be automatically reduced until it was eliminated altogether.

However, the British will still have their system of subsidies. They are namely of two kinds, (1) the deficiency payments which make up the difference between the prices farmers are guaranteed in the annual review, and the average market prices. These deficiency costs would then disappear if Britain joined the Common Market system. The other present subsidies are mainly aids to improved farming. These payments would be continued if Great Britain joined the Community, but the money would come from the Commission's funds raised by import levies, and not from the taxpayer.

The efficient British farmer is likely to have excellent opportunities in the Common Market. But some of the British farmers are still cautious in their attitude to membership of the Community. The agricultural system is an attempt to manage the market so as to be fair both to the farmers and to the consumers, and in order to be successful the British farmer has to be efficient in relation to the Continental farmers. The assurance that the British farmers will get fair treatment derives from the fact that the Community must provide a policy that ensures a good living for the much larger number of people who work in agriculture on the continent.

There is one field where this reasoning does not apply, and that is in horticulture. At the present time, British horticulture is largely protected by tariffs, and if Britain joined the Community these tariffs would have

to be removed on imports from other member countries.

"Great Britain does not reach the same standards in horticulture as the continental countries, and the industry would suffer unless it improves methods of production and distribution." (22) This statement refers to the fact that the continental countries provide the main competition to the British home industry, and these countries have great advantages of climate and lower costs. Mr. Bottomley states further: "This is a special problem and it needs special treatment. In fact, we have the remedy in our own hands, although we have been slow to apply it. Many of the greenhouses used by our horticulturists are old-fashioned and are built on soil which is now exhausted. If these sites could be sold for development, they would provide the capital for building modern greenhouses on fertile soil, in which mechanized methods could be introduced." (22)

This is an example of one way of helping horticulturists who would suffer if they lost their present protection. To the ones who cannot compete in a new market, the British government has offered to pay fair compensation. This will be a small price to pay in relation to the advantages Britain should gain from membership.

Naturally, this is one of the points on which the British should negotiate an agreement if they joined, because it should be noted that the Common Market treaty asserts that the common agricultural policy shall take

account of "the particular character of agricultural activities, arising from the social structure of agriculture and from structural and natural disparities between the regions".<sup>(23)</sup> This shows that British horticulturists are not alone in suffering from "natural disparities", and that they would be entitled to financial help with their problems within the Common Market.

As mentioned before, those engaged in agriculture are less than four per cent of Britain's population. But the effect on the country as a whole of joining the Community agricultural system has to be considered. One of the most important considerations here is: what would be the effect on the price of food in Britain?

It is difficult to calculate effects of changes in agricultural prices on cost of the food consumer buys. In the present case the calculation is made even more difficult, because for most commodities there is no available information as to what the prices in the Community are and what they are going to be. One member of the British "Campaign for Europe", is indicating that "we (the British) spent £5.560 millions in 1965 on food at retail prices. If we eliminated deficiency payments (now costing £175 millions a year) and if this was done over a period of 10 years, the consequent rise in the cost-of-living index would be less than one quarter of one per cent a year, even after allowing for increases in

the price of imported food". (24)

This effect should be acceptable, since the cost of living has been rising considerably for many years in Britain. When the Commission in July 1967 decided the fixed-prices for grain, calculations were made as to the effects on the price of bread. For instance, wheat prices in Britain had to be changed to those of the Common Market. Presently wheat prices in the Community are higher than the prices in Britain, which means that prices of bread will increase. The price increase will not come suddenly, but will be spread across a transitional period.

Consumers dislike any rise at all in the price of food and, if Great Britain is negotiating for entry into the Common Market, the agricultural question would be one of the most important to be discussed. The British are accustomed to living on food which is artificially cheap, because of their system of subsidies. Most economists now characterize this as a rather out-dated way of organizing agricultural production. The minimum import price system is the start of a process of change - it is likely that these changes will go on whether Britain joins the Common Market or not.

If Britain joins the Common Market it will save the amount it spends on subsidies, and this money has to be reallocated by the government. From the British government side, it has been decided that some of this money should be used immediately to improve the British system

of family allowances, which would offset, for those who most need help, any increases in the prices of food.

The calculations as to price effects of food indicate that the increases will be relatively small, and that they are not reasons for hesitation about going into the Common Market.

Great Britain is dependent on imports from overseas for much of its food. During the last year the import of food has been decreasing, and this change is a result of increases in home agricultural production. For 1965-66, the British Ministry of Agriculture estimated that approximately two-thirds of all grain needed would be produced at home.

The effect on the balance-of-payments position if Britain joined in the Common Market agricultural policy, arises from the fact that the before-mentioned levy would be payable on many imports and that this would add to the total cost. At present, levies, when they are applied, are paid to national governments, so that no burden on the balance of payments arises. However, in 1965 it was proposed that levies should be paid to the Common Market Commission, so as to finance support buying and aid to agricultural improvement. This was the proposal which de Gaulle so strongly objected to in June 1965, because it would have given much increased power to the Commission, by making it financially more independent of national

governments. There has been no agreement on this question, and it is still under discussion.

When considering these agricultural questions, it is also important to examine unfavorable possibilities. What would be the effects on Britain's balance of payments if it were eventually decided that the levies were to be paid to the Commission? While the levy would mean an additional burden on the balance of payments, there are three important factors which would reduce this burden.

First, the money that is paid in levies on imports is used for support buying and for farm improvements. Thus, a considerable amount of the British levy would be retained in Great Britain, for agricultural purposes, and therefore help the balance of payments position.

Second, it does not take account of the outcome of negotiations for the British entry. The British would want to negotiate arrangements which would lighten this balance of payments burden. The British should be in a strong bargaining position in any such negotiations since Britain imports more food than any continental country, and their levy payment would be much the highest.

Third, agricultural production in Great Britain can be expected to rise, even faster than it has done, under the stimulus of a good return from the market, and guaranteed sales at the Common Market's support prices for a number of products. Increased British home production means fewer imports, as well as a more prosperous agricultural society.



However, it cannot be said that if one only considered agricultural questions, there would be a clear advantage in favour of Britain joining the Common Market. Because if it joins, it will have to make certain changes in the present system of subsidies. But one cannot either consider the agricultural questions in isolation, since Britain primarily is an industrial nation.

## CHAPTER 6

### THE EFFECTS ON SOCIAL CONDITIONS

In the past the British welfare system was something unique, as were many of their social institutions, based on their longstanding tradition of reform and justice. But today most European countries offer similar, and some considerably better, social benefits.

The basic British idea, developing after the last world war, was to have a comprehensive system embracing an effective program of social insurance, the maintenance of full employment, and a national health service.

The British health service is more comprehensive in its scope and more generous in its provisions than similar services in the countries on the continent. But health service is only one aspect of social security. Provision of cash benefits in the form of unemployment and sickness pay, national assistance, retirement pensions, and family allowances are of equal or greater importance. In this respect the British fall behind. They devote a smaller proportion of their gross national product to social security cash benefits than do any of the Common Market countries. Social benefits in Britain are usually based on a flat-rate payment, with little relation to actual earnings, or to rising prices, while on the continent, social benefits are related to earnings and therefore have

built-in safeguards against inflation.

In Great Britain, the old-age pension represents about thirty per cent of a person's previous income, or a person's income goes down by two thirds, unless some additional sums are available to the person through having contributed to a graduated pension scheme taken out by himself or his employer. Qualifying age is 65. This system is very much inferior to most of the systems in the Common Market countries. The Common Market countries have the same qualifying age as in Britain, but the basis of payment is between sixty and seventy-five per cent of average earnings over a person's lifetime. When there are upward changes in the retail price index, the size of the pension is automatically increased. These pension systems are better than those available in Great Britain, but they also cost more than the British system. The greatest advantage of the continental system is the built-in adjustment ensuring that the relative value of the pensions is maintained when prices rise.

The British sickness benefits are one of the parts of a dual health service, which includes full medical care as well as insurance. They have a fixed rate, with adjustments for wife and children. This fixed rate is the same for everybody - which means it is reasonable for a low-wage worker and unfavourable for a high-paid worker. The fixed rate was in 1965 about 23 per cent of average wage. When it concerns the Common Market countries, these offer benefits, which on average, equal sixty per cent of earnings

for a period of a year, and this period may in some cases be extended.

It must be remembered that Britain provides full and free medical care, which is not available in all the Common Market countries. But, nevertheless, benefits in Britain do not compare particularly well with those of the Community countries.

In most countries in Europe, unemployment benefits are less favourable than those for sickness, but this is not so in Britain. For very low-paid workers this might mean that their income could possibly be higher while unemployed than while working, with an opposite result for a high-wage employee. In some of the Common Market countries, on the other hand, unemployment benefits are related to previous earnings.

The Common Market treaty provides that social benefits in the member countries shall be "harmonized". (25)

No deadline has been set for this harmonization - it is a long-term aim, which will be developed over a period of years. In the treaty it is also laid down that the social services must always be harmonized upwards; so those countries which are behind in any particular field must gradually improve their services up to the level of the best. If Great Britain joined the Common Market it is likely that it would be up to the others gradually to harmonize with the British level. But as indicated previously, in other fields Britain would have to make the effort

of improvement. Joining Europe will then lead to greater social security and a wider range of benefits for everyone.

## CHAPTER 7

### GREAT BRITAIN AND THE DEVELOPING COUNTRIES

Help to developing countries is now accepted by governments in most of Europe as a "must". The populations of developing countries in Asia, Africa and South America are fast increasing. The richer countries are helping to raise the standard of living of the poorer countries both for humanitarian reasons and out of self-interest. While Great Britain relies on imports of food and raw materials, the developing countries are largely dependent upon the sales of these commodities, to pay for the import of machinery and essential goods to expand their production.

The industrial nations' goals are then to provide an adequate market for the exports of the products of underdeveloped countries, as well as giving them long-term financial and technical assistance.

The British Government has presently a Ministry of Overseas Development, which has as one of its main functions to insure that value is secured for the interest-free financial aid given to the developing countries. The Ministry is a group of economists and foreign experts who advise on the development needs and priorities of the countries concerned.

Other European countries are doing the same. However,

there is no joint consultation or joint planning among the different experts of the various countries. Some experts might suggest concentrating largely on increasing food production or other agricultural developments, and others the starting of new industries, etc., according to their view of each country's needs. It must be quite unsatisfactory for the poorer nations to have so many differing theories about their basic requirements offered with the aid they receive.

The conclusion to this should be that the developing countries could use more effectively the financial aid and the technical assistance offered by European nations if these were coordinated.

Increased private investment could also make a great contribution to building up the prosperity of the developing countries. But the amount of private investment in these countries has dropped in the last few years. This result has been largely due to the policies chosen by these countries themselves; nationalization, tough taxation, or government management control. The drop in private investment is made up by government aid. But the aid given each year has to compete with increasing demands for government expenditure at home. An effort should therefore be made through a cooperative Europe to encourage private investment in those countries which are prepared to treat this type of investment in a responsible way.

Most of the developing nations' foreign exchange comes from their exports. The trading policies of the developed countries are therefore, often, of even more importance than their financial or technical assistance. Many of the developing countries depending on production of agricultural products have lost more from the enormous fall in the price of these commodities than the total amount of financial aid they have received from the richer countries of the world. Stabilization of commodity prices would help the developing countries, but it can only be accomplished on a world scale. If one or more countries suddenly decide, in isolation, to increase the production of a particular product, it may create overproduction, decrease the selling price and in this way create trouble for the poorer nations who are dependent on earnings from export of the product.

It is clear that a more united effort is required from Western Europe. Britain, with its traditional liberal trading policies with the developing world, would be likely to influence Europe in this direction. An enlarged Common Market would create a more rapid rate of growth in the developing countries, and thus provide a potential market for the developing world.



## CHAPTER 8

### IS THERE ANY CHOICE?

Great Britain needs a new policy which will make it economically strong and politically influential. Only by joining with other European countries in a United Europe, will it be possible for it to maintain its influence in a world dominated by superpowers. Today these are the United States and Soviet Russia. In the future there will also be China and a United Europe, whether or not Britain is a part of it.

There is also another side of the picture. Europe needs Britain as much as Britain needs Europe. For this reason the majority of people in the Common Market countries want Britain to join their Community.

United Europe can only be created by the enlargement of the Common Market and the development of its institutions. The disadvantages compared to the advantages to Britain of being a part of a future United Europe are small. The European countries have obligations to each other, and these obligations can only be fulfilled through the pooling of their resources.

Britain's attitude is clear: to work for a policy of joining the Common Market as soon as possible, and work with the continental countries to create an economically and politically integrated Europe.

FOOTNOTES

1. Sir Winston Churchill's Speech at the University of Zürich, September 19, 1946. Uwe Kitzinger's: "The European Common Market and Community", p. 34.
2. The figures are taken from EFTA-INFORMATION No. 2, June 1966. The importance of the EEC Market to EFTA countries.
3. Statement by President de Gaulle at his Press Conference held in Paris on September 9, 1965. Uwe Kitzinger's: "The European Common Market and Community", pp. 119-120.
4. Mr. Michael Stewart on the EFTA-EEC relationship, London, 1965. Lord Gladwyn: "Britain and the European Community," p. 7.
5. Europe's most urgent task. Sir Edward Beddington Behrens, "La Voix Federaliste Europeenne (Numero Special)", Luxembourg, 1966, pp. 61-62.
6. Ibid., p. 64
7. European Co-operation in advanced technology. Report of a conference arranged by the British Council of the European Movement, London, July, 1965, p. 5.
8. The Plowden Committee on the future of the British Aircraft industry, London, December, 1965.
9. These figures are taken from Computer & Automation, September, 1967.

10. A Technological Community. A United Europe by-passing the veto by Campaign for Europe, London, September, 1968, pp. 3-4.
11. European Co-operation in Telecommunications. Report of a Conference arranged by the British Council of the European Movement in London, June, 1967. J.E. Wall: Summing up the Conference, p. 16.
12. Ibid., pp. 6-8. Edward Short, M.P.: Future of telecommunications as technology advances, p. 6.
13. Industrial and financial advantages to the Common Market of British Membership. British section of the European league for economic cooperation, London, September, 1966. Industrial advantages, pp. 3-4.
14. Ibid., Research and Development, pp. 5-6.
15. Neue Dimensionen für Europa. Hans von der Groeben: "Auf dem Wege zur Wirtschaftsunion, Brüssel, August, 1968, pp. 20-21.
16. Ibid., Hans Heellwin: Gemeinsame Verkehrspolitik gewinnt Kontinent, p. 9.
17. The average growth rate is based on the yearly growth rate for the years 1958-65 for U.K. and EEC of table A in Part II "A chart and some vital statistics" by Uwe Kitzinger's The European Common Market and Community, p. 75.

18. Zollunion Vollendet. Europäische Gemeinschaften, Bonn, August, 1968, p. 1.
19. The U.K. Economy and the Common Market. Report of a Bankers' Conference, London, November, 1961. Kenneth Keith: "The City could help the Common Market", pp. 9-14.
20. According to table A in Part II "A chart and some vital statistics" of Uwe Kitzinger's "The European Common Market and Community", p. 74, the average proportion of people engaged in agriculture is 14.2 per cent for the EEC countries and 4. per cent for Great Britain.
21. The Common Market Treaty. Article 39, part I; Agriculture, pp. 20-21.
22. Why Britain should enter the European Common Market. Sir Arthur Bottomley: "Effect on British Agriculture", pp. 11-12.
23. The Common Market Treaty. Article 39, part I, Agriculture, p. 21.
24. Extract from a lecture by Lord Gladwyn at the International University of Comparative Sciences: Britain and the European Community, London, 1968, p. 7.

25. The Common Market Treaty. Article 117: Social conditions,  
p. 54.

26. The table is taken from table A, Part II "A chart and  
some vital statistics" by Uwe Kitzinger in his "The European  
Common Market and Community", pp. 73-74. The figures  
(in million of dollars) exclude the Communist-block-countries'  
world trade.

27. Ibid., p. 75.

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